PennyMac Financial Services, Inc.

Third Quarter 2013 Earnings Transcript

November 6, 2013

Good morning and welcome to the third quarter 2013 earnings discussion for PennyMac Financial Services. The slides that accompany this discussion are available on PennyMac Financial's investor relations website at www.ir.pennymacfinancial.com. Before we begin, please take a few moments to read the disclaimer on slide one of the presentation. Thank you. Now I'd like to turn the discussion over to Stan Kurland, PFSI's Chairman and Chief Executive Officer.

Speaker:

Stanford L. Kurland – Chairman and Chief Executive Officer

Introduction

Thank you, Chris.

The third quarter was challenging for the mortgage industry, as higher mortgage rates led to decreased origination volumes and a significant contraction in activity across the market. A smaller origination market increased competition and tightened margins, which decreased profitability across the mortgage industry, including in PennyMac Financial's loan production businesses. However, PennyMac Financial's business model includes recurring fee income in our Servicing and Investment Management businesses, both of which grew during the third quarter and provided stability in an otherwise volatile quarter. Let's begin by discussing third quarter results and recent activity on slide 2.

Slide 2

Pretax income for the third quarter totaled $34.9 million, resulting in earnings per diluted common share of $0.28. Net revenues totaled $87.2 million, down 18 percent from the second quarter, as revenue from our mortgage banking activity declined due to the reduction in market origination volumes during the quarter. Expenses were down 7 percent from the second quarter as we undertook efforts to realign PennyMac's operations to the reduced size of the loan origination market.

Loan production was down 6 percent in the quarter and totaled $8.0 billion in UPB. Correspondent loan acquisitions were $7.7 billion and retail originations were $283 million. New loan production, in addition to portfolio acquisitions by our advised entities, helped our servicing portfolio grow to $52.9 billion, up 19 percent from the second quarter.

Net assets under management reached $2.1 billion, up 14 percent from June 30, 2013 largely due to a $250 million equity raise completed in mid-August by PennyMac Mortgage Investment Trust, the REIT that we manage.

Since the end of the third quarter, we are very pleased to announce the acquisitions of two bulk portfolios of Agency MSRs totaling $21 billion in UPB. I am optimistic about these acquisitions as we expect that they will add earnings and scale to our loan servicing business, drive opportunities in our retail lending business, and provide opportunities for PMT to co-invest in the portfolios.

I will discuss the details of these important acquisitions later in the presentation.

Slide 3

On slide 3 I want to quickly remind you of the diverse businesses that make up PennyMac Financial and our drivers of revenue. The company is engaged in three main businesses: Loan Production, Loan Servicing and Investment Management which are organized under two segments: Mortgage Banking and Investment Management. PennyMac Financial's revenue sources are a combination of traditional mortgage banking and fee-for-service activities.

Our loan production activities consist of the correspondent lending and retail lending businesses. Both of these businesses are sensitive to changing interest rates and housing demand and can experience occasional volatility. Loan servicing and investment management are businesses that largely provide recurring fee-based revenues and provide stable streams of revenue for the company.

As I stated earlier, the third quarter was volatile for the loan production business, including PennyMac Financial's. However, PennyMac Financial benefited in the quarter from the stability of our loan servicing and investment management activities. The recurring fee revenue from businesses such as servicing and investment management, as well as access to the revenue opportunities from loan production, results in a balanced business model that can generate earnings across market cycles better than typical mortgage businesses that are heavily geared toward origination profits.

Slide 4

Turning to slide 4, I'd like to focus on the significant transition in the mortgage origination market.

The average rate on the 30 year fixed rate mortgage was approximately 75 basis points higher in the third quarter than the second quarter, reflecting a market adjustment for the possibility that the Fed would begin tapering its quantitative easing program. The rise in rates from near-historic-low-levels resulted in a significant slowdown in refinance activity and a reduction in the expectations for the size of the total mortgage origination market going forward.

The rapid contraction in the mortgage origination market increased competition among lenders who sought to maintain volumes through more aggressive pricing. The consequence was a reduction in margins during the quarter in both conventional and government loans.

Mortgage origination volumes are forecast to decline by approximately 30% in the second half of 2013 compared with origination volumes in the first half of the year, with reduced volumes forecasted for 2014 as well. Recently, the concern over tapering has diminished, which had led to lower interest rates and a pickup in mortgage origination activity.

However, the composition of mortgage originations continues to transition towards a larger percentage of purchase-money loans. Purchase-money origination volumes are expected to comprise approximately sixty percent of the market going forward, driving originators to focus on strategies to increase their share of the increasingly important purchase market.

Conversely, higher rates and an improving housing market have also helped create other opportunities, such as investment opportunities in MSRs, as smaller originators face profitability and liquidity constraints and rising MSR values heighten regulatory capital considerations for larger banks.

Let's turn to slide 5 to take a closer look at expenses for the quarter, and how the company is realigning operations to account for the changing origination environment, as well as growth opportunities in other areas, particularly in loan servicing.

Slide 5

In light of the transition in the mortgage market environment during the quarter, we took actions to realign our loan production headcount with the changing market opportunity. We reduced headcount in our origination and fulfillment operations, as well as transferred staff to servicing functions where we continue to grow and anticipate future growth. Expenses remained higher in the third quarter than they otherwise might have been, as we allocated resources and added staff in anticipation of the two servicing portfolio acquisitions. We also sought to balance our staff reductions with an eye toward the long-term needs of the organization and to position our operations for future growth opportunities heading into 2014.

Thus far we have reduced staff, mainly in our origination and fulfillment operations, by 186 positions. Of this number, we transferred 46 highly experienced employees who can provide valuable experience to our servicing group in preparation for the recent and pending servicing acquisitions. This has allowed us to staff up for these acquisitions more quickly than by hiring and training external candidates.

Total expenses were down 7 percent from the second quarter, with compensation as a percent of total expenses falling from 75 percent in the second quarter to 69 percent in the third quarter. Expenses were also aided by not adding to the accrual for cash incentive compensation during the quarter. The expense reduction in the third quarter reflects only a portion of the recent headcount reductions, as many of the reductions occurred after quarter-end and will be reflected more fully in the fourth quarter financial results.

Let's now turn to slide 6 and take a closer look at the PFSI's MSR acquisition and its partnership with PMT.

Slide 6

PMT is investing in excess servicing spread from two bulk MSR portfolio acquisitions by PennyMac Financial. These investments will be similar in structure to the excess servicing spread investment PMT completed in the third quarter.

In an excess servicing spread investment, PMT acquires the right to receive a portion of the contractual servicing fee on MSRs acquired by PennyMac Financial. The example on slide 6 shows a sample transaction where the total MSR is 25 basis points. In this example, PMT acquires the right to receive the cash flows on 12.5 basis points, or half of the total servicing fee, through its investment in the excess servicing spread. PennyMac Financial retains the base MSR, which represents the remainder of the contractual servicing fee. PennyMac Financial retains ownership of the MSR; PMT's investment in the excess servicing spread does not change

PennyMac Financial's contractual obligation to the Agency for whom PennyMac Financial is servicing the loans.

To illustrate: PennyMac Financial receives an annual servicing fee of $250 on a loan with a 100 thousand dollar unpaid principal balance. PMT would be entitled to receive half of that amount, or $125. Excess servicing spread has the same embedded prepayment risk as the underlying MSR, but without any operational risk.

The base servicing retained by PennyMac Financial is the remaining 12.5 basis points of servicing fee. PennyMac Financial bears the expense of performing the loan servicing activities and it is also responsible for advancing certain cash payments for delinquent loans as required by the servicing agreement. This includes principal and interest, tax and insurance and other corporate protective advances. However, it is entitled to keep the ancillary income, which includes late fees, float on escrows and certain other fees.

The expected yield on the excess spread investment can vary dependent on the level of interest rates, the recapture arrangement with the servicer, and its success at recapturing loans that refinance. Generally, higher rates extend the expected cash flows on the excess servicing spread investment due to lower prepayment activity and the opposite is true if rates decline. As loans are refinanced by PennyMac Financial's retail lending activities, PMT shares in the recapture economics of the resulting new MSR, enhancing the return on the asset.

Let's examine the details of the two MSR portfolios on slide 7.

Slide 7

After the end of the third quarter, PennyMac Financial completed the acquisition of one portfolio and entered into a letter of intent relating to the purchase of a second MSR portfolio. These two Agency MSR portfolios have very different characteristics:

The first is a pool consisting of recently originated loans serviced for Fannie Mae acquired from an independent retail originator. The portfolio is $10.3 billion in UPB of almost entirely performing loans with a weighted average note rate of 3.52%. This is a high quality, low touch portfolio that adds scale to our servicing platform. This transaction closed on November 1st.

The second is a pool of legacy loans serviced for Ginnie Mae totaling $10.8 billion in UPB to be acquired from a bank. It is a seasoned portfolio with over 11 percent of the loans in some state of delinquency and has larger servicing advances associated with it. The weighted average note rate on the pool is 5.44%, which provides a significant recapture opportunity for our retail group, as well as potential modifications with redelivery into Ginnie Mae securities. We have entered into letter of intent with respect to this second transaction, which is still pending. We hope to close this transaction later in the fourth quarter.

In both transactions, PFSI is acquiring the entire MSR, with an investment in excess servicing spread sold to PMT. In the second transaction, the base servicing fee retained by PFSI is expected to be higher due to the higher costs associated with servicing delinquent loans and government-insured loans in default. As I stated earlier, both of these acquisitions are significant additions to our servicing portfolio and are expected to add earnings and scale to our loan servicing business, drive retail lending opportunities, and provide co-investment opportunities for PMT.

Let's now turn to slide 8 and discuss the market environment and our outlook as we head into 2014.

Slide 8

As we touched on earlier, higher mortgage rates have caused production activity to slow, reducing the size of the available opportunity in the mortgage market and creating a more competitive and volatile market environment. Origination forecasts indicate that the composition of mortgage originations will shift to a greater percentage of purchase-money originations over the next two years and possibly longer. However, the underlying fundamentals of housing continue to remain positive and housing data released in the third quarter continued to indicate strong demand for homes. With respect to the direction of home prices, we remain optimistic in our outlook for housing going forward. Demand from homebuyers and investors remains strong, housing inventory is low, and home affordability remains high despite the rise in mortgage rates. While the recent debt ceiling debate and partial government shutdown, along with higher rates, have moderated expectations for future home price appreciation, forecasts still predict continued appreciation across most of the U.S. for the foreseeable future.

Turning to distressed whole loans, we continue to see opportunities in this investment class for PMT, the REIT that we manage. PMT has doubled its investments in distressed loan pools thus far in 2013 versus 2012, and new opportunities continue to emerge. Going forward, it appears increasingly likely that more non-foreclosure resolutions will occur through modifications, short-sales and deeds-in-lieu than were available previously. This is a result of increasingly streamlined processes, more favorable eligibility criteria for certain government programs and a generally improving housing market. These changes help to shorten resolution timelines and enhance the expected returns on the loans. All indications suggest that the distressed whole loan opportunities will remain strong through at least 2014.

The Jumbo private label securitization market remains an opportunity that has tremendous promise long-term. However, for the foreseeable future, we expect that the GSEs will remain large players in the high balance loan market and a meaningful reduction in conforming limits are not likely to occur until late 2014 and possibly later. The high level of government involvement makes it difficult for the non-agency market to grow and attract the necessary investor participation required for a healthy market.

Turning to correspondent lending, the third quarter was a difficult transitional period for PMT and mortgage aggregators broadly. However, mortgage rates have trended downward recently, reducing some of the market pressures. While the market contraction is difficult for existing participants, it also creates higher barriers for new entrants, primarily because it becomes harder to grow the aggregation volumes to levels that are necessary to achieve economies of scale required for long-term viability. With respect to MSRs, PMT expects to co-invest with PennyMac Financial in the acquisition of two MSR portfolios totaling $21 billion, where PMT acquires the excess servicing spread from these portfolios. We continue see a consistent flow of bulk MSR portfolios in the market, and we remain optimistic about the opportunities for additional excess servicing spread transactions in the future.

I’d now like to turn it over to David Spector, PennyMac Financial’s President and Chief Operating Officer.

Speaker:

David Spector – President and Chief Operating Officer

Slide 9

Thank you Stan.

Turning to slide 9, I’d like to review the growth trends across PennyMac Financial’s businesses.

As Stan stated earlier, rapidly increasing interest rates created a challenging origination market in the third quarter as increased competition and lower origination volumes resulted in tighter margins, thereby reducing mortgage origination profitability. Over the long-term, we believe that our correspondent and retail lending production are well positioned for growth, while continuing to drive organic growth of the servicing portfolio. Continued investment by PMT should facilitate the need for equity raises over time, thus increasing our assets under management, and also increasing the servicing portfolio. We remain optimistic on the long-term growth prospects across all of PFSI’s businesses.

In correspondent, we are focused on disciplined initiatives to capture additional market share profitably. Our retail lending business continues to develop products, technology, and processes for the long-term. In addition, the recent MSR acquisitions provide recapture opportunities for our retail lending business, which should drive near-term growth. Presently, both the correspondent and retail production businesses have a relatively small share of the total U.S. origination market, and we believe we can prudently and profitably capture additional share over the long-term, even in a reduced mortgage origination market.

Our loan servicing business has grown consistently, primarily from the volumes added through PMT's loan production activity. We are growing our special servicing portfolio as a result of continued distressed whole loan investments made by PMT. Our recent acquisitions of bulk MSRs will substantially add to our servicing portfolio which we expect to approach approximately $75 billion by the end of 2013.

Our investment management business is driven by our net assets under management and the performance of our Advised Entities. Net assets under management have grown as PMT has raised additional capital to deploy into new investment opportunities, with the most recent raise of $250 million in August. The market opportunity to invest in residential mortgage-related assets is significant and we expect to raise and manage additional capital in PMT over time.

Let's turn to slide 10 and take a closer look at PFSI's businesses.

Slide 10

Correspondent acquisitions totaled $7.7 billion in UPB in the third quarter, down 11 percent from the second quarter. Of this, government-insured loan acquisitions totaled $4.0 billion, generating gains on sale of mortgage loans for PFSI. Additionally, PFSI performed fulfillment activities on $3.7 billion of conventional conforming and jumbo loans for PMT, generating fulfillment fee revenue.

In October total correspondent loan fundings and interest rate lock commitments were both $2.1 billion.

Lower market volumes in the near term and tighter margins require a continued emphasis on disciplined execution, pricing, and risk management as the origination market transitions. To that end, we reduced operational headcount in correspondent lending during and shortly after the end of the third quarter by 186 employees.

Our objective in correspondent lending is to continue developing a complete platform to serve smaller originators that form one of the more profitable cores of our customer base. The changing dynamics in the mortgage industry are resulting in many smaller mortgage banks focused on their local and regional markets. We want to be a valued business partner to these originators versus their alternatives of selling loans to a large bank aggregator or directly to the Agencies. This means continuing to provide relevant products and pricing to these customers while at the same time providing a complete array of delivery methods to align with their business needs. We also continue to add productive new seller relationships. Specifically, we are focused on expanding in certain geographies such as the Northeast where, for example, we have identified the potential to add material production volume. Overall, we are focused on optimizing the seller network to make sure we have the right number of sellers, with each one representing a meaningful relationship. During the third quarter, we added 17 new sellers but terminated 16 unproductive ones, ending the quarter with 221 sellers.

Let's now turn to slide 11 and take a look at our retail lending business.

Slide 11

Our retail lending business is a consumer direct business that originates loans through a centralized call center-based model. We capture leads for origination from our servicing portfolio, such as the recapture of loans eligible for refinance activity, or purchase-money loans to finance REO and short sales in the distressed portfolio. We also market through the Internet and direct mail to generate leads.

We have grown this business steadily but it remains in the early stages of its growth. While retail volumes decreased 18 percent in the third quarter to $283 million in unpaid principal balance, consumer direct originations, or those not generated from our portfolio, grew 42 percent. The development of our non-portfolio business is increasingly important as the mortgage origination market shifts to one led by purchase-money transactions. As we saw on slide 4, originations are expected to be much more concentrated in the purchase-money market and the ability to grow and capture share in that market will drive revenues going forward.

We are optimistic about the near-term growth of our retail lending business as a result of the two servicing portfolio acquisitions mentioned earlier. Our retail lending group's ability to recapture refinance opportunities, modification opportunities, and purchase-money market opportunities from those portfolios will drive near term revenues for the business.

We are striving to bring the efficiency of the consumer direct model to what is becoming a purchase-money origination market. PennyMac's objective is to provide value to realtors, who are key to the home purchase transaction, and the end consumers through effective service, products and tools, and pricing. We are developing our product menu, investing in new technology, and are focused on delivering a superior loan origination process. Part of delivering that process is targeted hiring of specialized personnel to facilitate home purchase transactions.

Slide 12

Turning to slide 12, our servicing portfolio ended the third quarter at $52.9 billion in unpaid principal balance, a 19 percent increase from the end of the second quarter. Most of this growth came from $8.4 billion in organic loan production generated from the retail and correspondent businesses. Our special servicing portfolio continues to add UPB through the acquisition of distressed whole loans by PMT. We also added UPB through mini-bulk and flow MSR acquisitions.

As I said earlier, we expect substantial long-term organic growth from the continued production volume generated by the correspondent and retail businesses. In addition, we expect to add approximately $21 billion in unpaid principal balance from our 2 bulk MSR acquisitions previously discussed. We continue to look for further opportunities to grow servicing through MSR portfolio acquisitions in partnership with PMT and remain optimistic about future acquisitions. Growing the servicing portfolio should help drive economies of scale and improve servicing profitability over time, while also providing retail lending the opportunities to recapture portfolio refinances.

Let's now switch from our Mortgage Banking segment to Investment Management and turn to slide 13.

Slide 13

Our Investment Management activities provide us with steady, recurring management fee revenue, as well as performance-based incentive fees from all of our advised entities. Net assets under management increased to $2.1 billion during the third quarter as a result of PMT's $250 million equity raise completed in mid-August. Revenues increased 6 percent from the second quarter to $14.3 million, with incentive fees and carried interest essentially flat from the second quarter.

PMT is actively investing in multiple opportunities including opportunities in distressed whole loans, mortgage servicing rights, and non-agency securitizations. PMT is a permanent capital vehicle that has repeatedly demonstrated its ability to access the capital markets as its investment portfolio grows. PMT raised $250 million in equity capital in the third quarter, which has been deployed in new investments. In fact, PMT invested over $350 million in equity into new investments in the third quarter, with additional investments pending after the end of the quarter. We are confident that PMT's investment opportunities will remain robust as we head into 2014, which should benefit PennyMac Financial's Investment Management business.

I'd like to turn it over to Anne McCallion, PennyMac Financial's Chief Financial Officer to talk about the third quarter's financial results.

Speaker:

Anne McCallion – Chief Financial Officer

Thank you David. Let's turn to slide 14 and take a look at the highlights of the quarter's financial performance.

Slide 14

Net income for the third quarter was $31.4 million on net revenue of $87.2 million, down 35 percent and 18 percent, respectively, from the second quarter. Earnings per diluted common share was $0.28, down 27 percent from the second quarter.

Mortgage rates put pressure on production volumes and margins, resulting in Mortgage Banking segment pretax income of $22.7 million, down 43 percent from the second quarter of 2013.

The decline in production volumes and margins during the quarter resulted in a decline in net gain on mortgage loans held for sale from $42.7 million in the second quarter to $25.9 million in the third quarter. This was largely driven by a 22 percent decline in government-insured lock volumes during the third quarter. Net loan servicing fees were slightly down, totaling $21.4 million in the third quarter.

Our Investment Management segment performed well during the third quarter, with pretax income increasing 19 percent from the second quarter to $12.3 million.

Let's turn to slide 15 and examine the financial statements in greater detail.

Slide 15

Total assets at September 30, 2013 were $1.3 billion, flat as compared to the second quarter. Mortgage loans held for sale at fair value consist primarily of the correspondent inventory of government-insured loans that have yet to be sold. At quarter-end, the loan production inventory was $530 million, a decrease of 19 percent from the second quarter, largely due to a decrease in fundings at the end of the quarter. Another important asset I want to mention is the $253 million of mortgage servicing rights, which is the combination of the mortgage servicing rights held at fair value and those held at the lower of cost or fair value. This asset largely results from our securitization of government-insured correspondent loans. The MSR is a valuable asset that produces earnings over time, and I will be discussing this asset, and its value, in a moment.

Of the company's $664 million in total liabilities at the end of the third quarter, $388 million was related to the financing of our mortgage loan inventory, primarily correspondent loans under repurchase agreements. The amount of this debt outstanding should vary with the change in our inventory of correspondent government-insured and retail mortgage loans.

I would now like to turn to slide 16 and take a greater look at the income statement.

Slide 16

As I previously noted, net revenue was $87.2 million, down 18 percent from the previous quarter, largely driven by a 39 percent decrease in net gains on mortgage loans and a decrease of 17 percent in fulfillment fees. Servicing fees increased 17 percent and management fees and carried interest were both essentially flat. Net interest income was up for the third quarter;

however it remains a smaller income component for PFSI generating less than $1 million in the quarter.

Expenses for the third quarter were $52.3 million, down 7 percent from the second quarter, largely driven by a 15 percent decrease in compensation expense. The third quarter's decrease in compensation expense resulted from headcount reduction and not adding to the accrual of certain cash incentive-based compensation expenses.

This resulted in pretax income for the third quarter of $31.4 million. Net income attributable to PFSI shareholders was $5.2 million for the third quarter. It's important to remember that the second quarter's net income attributable to PFSI shareholders represents a partial period from May 9, 2013 to June 30, 2013. Also, during the third quarter, a PNMAC unit holder exchanged approximately 6.1 million PNMAC partnership units for PFSI shares, increasing the total number of PFSI shares outstanding. This exchange also led to the recording of tax-related assets and liabilities on PFSI's balance sheet.

Let's turn to slide 17 and look at the Mortgage Banking segment's pretax income.

Slide 17

Mortgage banking revenues were $72.9 million for the third quarter, down 22 percent from the second quarter, largely driven by the decline in net gain on mortgage loans. As Stan described earlier, higher rates decreased refinance volumes, increasing competition and tightening margins through the quarter. This drove a 39 percent decline in net gain on mortgage loans held for sale during the quarter to $25.9 million. Fulfillment fees were also affected by the lower volumes and declined to $18.3 million, down 17 percent from the second quarter.

Net servicing fees were basically unchanged during the quarter at $21.4 million. As our servicing portfolio continues to grow, especially with one completed and one in-process large bulk MSR acquisition, we expect this number to increase.

As mortgage rates rise, there can be a shift in loan production revenues between net interest income and gain on sale. The steepening of the yield curve causes the spread earned on mortgage loan inventory prior to being sold to increase. This is offset by a reduction in the gain on sale of the loans. Although the increased interest income and the decreased gain on mortgage loans may not completely offset, we should note that as we go forward and head into an environment of higher mortgage rates, net interest income should rise while net gain on mortgage loans falls.

Expenses for the Mortgage Banking segment fell 12 percent in the quarter, resulting in pretax income for this segment of $22.7 million, down 43 percent from the previous quarter.

Let’s now turn to slide 18 and take a look at the other business segment, Investment Management.

Slide 18

Investment management revenues for the third quarter were $14.3 million, up 6 percent from the second quarter. Investment management revenues were driven by strong management fees, incentive fees, and carried interest from the Investment Funds.

Offsetting this revenue was compensation expenses of $2 million. Pretax income for investment management was $12.3 million, up 19 percent from the prior quarter, largely driven by reduced expenses during the quarter.

Let's turn to slide 19 and take a greater look at the embedded value of our mortgage servicing rights.

Slide 19

PFSI's mortgage servicing rights portfolio continued to grow, ending the third quarter at $21.8 billion in UPB, up from $18.8 billion in UPB at the end of the prior quarter.

MSRs are a growing portion of PFSI's long-term investments and their economic value generally improves in a rising interest rate environment.

We account for originated MSRs at the lower of amortized cost or fair value, or LOCOM, when the underlying note rate on the loans is less than or equal to 4.5 percent. MSRs with note rates on the underlying loans above 4.5 percent are accounted for using the fair value method. Given that the vast majority of the loans underlying PFSI's servicing portfolio have note rates below 4.5 percent, most of the MSR asset is accounted for using LOCOM. At the end of the quarter, the fair value of PFSI's MSR asset was $13.2 million greater than its carrying value. This increase in the underlying economic value may result in PFSI's MSRs generating more income over time than their recorded values indicate.

And with that I would like to turn it back over to Stan.

Speaker:

Stanford L. Kurland – Chairman and Chief Executive Officer

Thanks Anne. The third quarter was a difficult quarter as the sudden increase in mortgage rates decreased origination volumes and margins across the industry. However, this shift in the mortgage market highlights the strength of our business model, with contributions from our growing servicing and investment management businesses which provided stability in the quarter.

PFSI continues to grow its servicing portfolio through organic loan production, and bulk servicing acquisitions. In fact, we anticipate the portfolio will grow over 40 percent in the fourth quarter, assuming we complete the second of the large bulk servicing acquisitions. Our investment management business continues to progress as PMT raised new capital and has deployed it across multiple investment opportunities. As the mortgage origination market stabilizes, we expect to resume increasing market share and volumes in correspondent and retail lending. While conditions in the mortgage industry are challenging, I believe PFSI's diversified business model is well positioned to drive profitability and earnings growth over the long-term.

Finally, we encourage investors with any questions to reach out to our Investor Relations group by email or phone.

Thank you.

Operator

This concludes the PennyMac Financial Services third quarter earnings discussion. For any questions, please visit our website, at www.ir.pennymacfinancial.com , or call our Investor Relations department, at 818-224-7028.